

First to Market

June 16, 2026

WHAT NOW FOR WAR STOCKS?



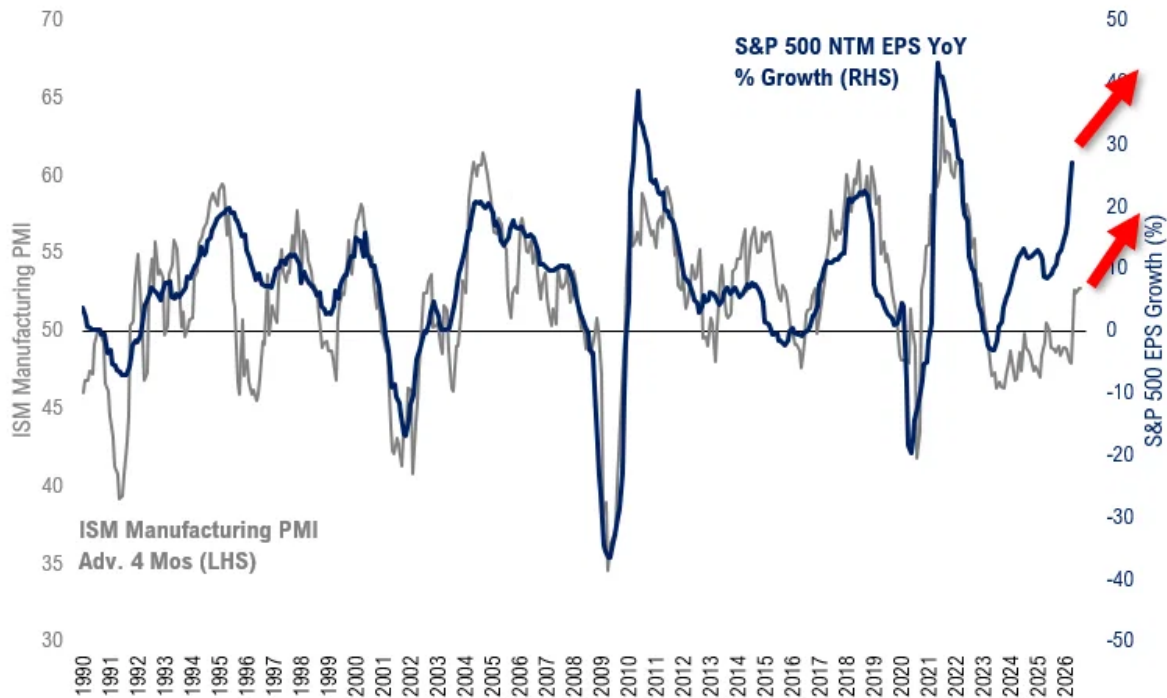
Kent Fung

"Europe is a dysfunctional family, but divorce is not the answer." — Michael Morpurgo

Chart of the Day

EPS: PMI recovery leads to EPS growth acceleration

ISM Manufacturing PMI (Adv 4M) and S&P 500 NTM EPS YoY % Growth Since 1990



Source: Fundstrat, Bloomberg, ISM

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Good morning!

With optimism on the rise for a real, lasting resolution of the Iran war, it's worth taking another look at defense stocks. For stocks in general, the aphorism is often "sell the buildup, buy the invasion." For defense stocks, however, the reverse is typically true. The iShares U.S. Aerospace and Defense ETF \$ITA was up 13.5% for 2026 at the close of trading on Friday, Feb. 27, a day before the Iran war began, handily outperforming the S&P 500 over the same period. The first trading day after hostilities began saw the ETF rise 2.8% – but it's been a choppy downward decline since then. \$ITA is now slightly underperforming the S&P 500 YTD (9.73% versus 10.35% as of yesterday's close.)

For the most part, wars do not actually have any lasting, long-term effects on defense stocks. To be sure, there's often a kneejerk surge when a real expectation of war breaking out becomes widespread, and there can be a similar downward dip when peace is widely anticipated.

Yet savvier (and possibly also more cynical) investors have long understood that military conflicts are inevitable – and priced out the stocks accordingly. It's also not exactly a secret that military procurement contracts – a mainstay of defense-sector revenues – are long-term affairs, both in terms of negotiation and implementation.

That hasn't really changed. Yet as my colleague Hardika Singh suggested on March 3, perhaps outperformance might become the new normal despite what the recent months have shown. Here's why:

It's hardly a secret that the European response to President Trump's second term in the White House thus far has been one marked by a growing resolve to decouple from reliance on U.S. military suppliers, with top-level government policy decisions helping to send orders and backlogs surging to new highs at companies like Germany's Rheinmetall, Italy's Leonardo, and France's Thales. This might well have provided the funding needed to help European defense contractors to overcome the considerable U.S. defense moat.

The Iran war could well have helped in that respect, as well: The conflict has led to a serious depletion of U.S. military stockpiles of Patriot missiles, THAAD interceptors, and Tomahawk cruise missiles, and the Center for Strategic and International Studies reported that rebuilding U.S. inventories would be a "multiyear project" based on current maximum production capabilities – with Tomahawk stores estimated to take until 2030-2031 to return to prewar inventory. Because it isn't much of a stretch to anticipate that the U.S. defense contractors might prioritize rebuilding U.S. reserves over delivering to the militaries of allied nations, the Iran war might thus have intensified European motivation to develop homegrown alternatives sooner rather than later.

And yet.

No individual EU member has the economic might to approach, nevermind match, the investment the U.S. has made in its military-industrial complex – a significant degree of unity is needed. But despite the high-level moves, we are not seeing that unity in anecdotal episodes such as the recent collapse of the Franco-German Future Combat Air System (FCAS) fighter jet program. Or multiple air defense systems being independently and redundantly funded by multiple member states. Or persistent delays in intraborder military-equipment transfers.

The experts are seeing deeper evidence as well. In its March 2026 status report on joining defense procurement, the European Parliamentary Research Service discussed fragmentation 22 times over just 12 pages. It has also noted extensive delays leaving most procurement proposals in design or execution phase (rather than operational delivery) for years on end.

One might have hypothesized that increased demand by the Pentagon to replenish depleted armaments would be at least slightly negated by the combination of declining demand and E.U. turning military procurement inward, but that doesn't seem to be the case.

The EU's apparently intrinsic tendency to squabble means that even if the Europeans' defense orders get pushed to the back of the line, it still might be the speedier option – and act as an unintentional tailwind for the U.S. defense sector.

Economic data summary:

The Empire State Manufacturing Survey gauges the outlook of top manufacturing executives in the New York area. In June, the general business conditions index remained positive but fell to 5.7, falling short of the forecasted 13.9, indicating a business outlook that is optimistic, but only slightly so and less than expected. The new orders index and supply availability both declined, and the future business conditions index stands at 30.1, as 44% of respondents anticipate a rise in economic activity soon. With the U.S. and Iran agreeing to a memorandum of understanding over the weekend, oil prices now arguably face less upward pressure. It's reasonable to anticipate that this improvement could boost business sentiment and ease inflation in the coming months.. — *Mason Yuh*

The **NAHB Home Builder Confidence Index** fell to 35 in June, missing the 37 estimate. This is now the 14th straight month where the index is below 40 – extending the longest sub-40 streak since 2011-2012. Present sales fell 2 points to 38; future expectations and buyer traffic held flat at 45 and 25, respectively.

The South was the main factor for this number, perhaps unsurprisingly since it is the nation's largest homebuilding region. The index for this region fell 7 points to 29, the sharpest monthly decline since November 2023. On the other hand, the Northeast was the outlier, rising to 50.

Builders are responding to the housing-market pressure through pricing concessions. Thirty-five percent cut prices in June (up from 32%), and 62% used sales incentives – the 15th straight month the latter figure came in at 60% or higher. The spring selling season has underperformed, with publicly traded homebuilders carrying backlogs well short of last year. — *Jaime Lee*

Share your thoughts

Can the EU develop a true alternative to the U.S. defense industry? [Click here to send us your response.](#)

Here's what a reader commented

Q: Did you get in on the SpaceX IPO?

A: No, way overvalued!

Catch up with Fundstrat

The SpaceX IPO priced on Thursday June 11, 2026. As we noted recently, there could be some wobbling of equities in front of the SPCX IPO (due to funds raising cash), but we expected equities to trade well post-IPO. This is a contrarian take (to

stay constructive), as many pundits turned cautious recently, citing the excess liquidity of SPCX as a reason to become cautious.

Technical

Risk assets have responded positively to the interim Iran deal, with WTI crude, Treasury yields, and the U.S. dollar all breaking down together, keeping the near-term framework constructive even if some near-term resistance arises into/past this week's FOMC.

Crypto

There is reason to believe the worst of that correction may already be behind us. While I still think patience is warranted on the majors, I find myself incrementally more constructive than I was several days ago.

News We're Following

Breaking News

- Yum Brands sells Pizza Hut to private equity firm LongRange Capital for \$2.7 billion CNBC

Markets and economy

- Bank of Japan raises rates to 31-year high, flags more to come REU
- China's retail sales fall for first time since Covid in new worry for economy BBG
- Biotech IPO revival faces competition from cash-rich big pharma buyers CNBC

Business

- Nvidia joins AI borrowing frenzy with \$25 billion bond sale BBG
- SpaceX is buying AI agent Cursor. Market value set to top Amazon as stock soars BAR
- American Express buys TheFork from Tripadvisor for \$700M QZ

- Robinhood to cut 10% of workforce in restructuring WSJ

Politics/U.S.

- Trump administration considers \$300bn fund for Iran if deal is upheld FT
- Newsom accuses Trump of ordering DOJ to investigate him, wife BBG
- Lawmakers fight to stop the Trump administration's dismantling of a \$386M ocean observatory project AP
- Eight crew members believed dead in B-52 bomber crash at California air base WSJ

Overseas

- Ukraine starts first phase of EU membership talks in 'Rubicon' moment REU
- Trump in G7 summit in France as he touts signing of Iran memorandum CBS
- UK bans under-16s from using social media apps including TikTok and YouTube AP

Of Interest

- Scientists found the coral reefs that can survive climate change BBG

Overnight	
S&P Futures	+6 ▲ point(s) (+0.08% ▲)
overnight range:	-14 ▼ to +8 ▲ point(s)
APAC	
Nikkei	+0.13% ▲
Topix	-0.21% ▼
China SHCOMP	-0.11% ▼
Hang Seng	-1.40% ▼
Korea	+2.11% ▲
Singapore	+0.78% ▲
Australia	+0.04% ▲
India	+0.57% ▲

	India	+0.37% ▲
	Taiwan	+0.91% ▲

Europe

	Stoxx	50 +0.79% ▲
	Stoxx	600 +0.40% ▲
	FTSE	100 +0.59% ▲
	DAX	+0.53% ▲
	CAC	40 +0.77% ▲
	Italy	+1.26% ▲
	IBEX	+0.39% ▲
	Canada	+0.97% ▲
	Mexico	+0.37% ▲
	Brazil	-0.42% ▼

FX

	Dollar Index (DXY)	+0.04% ▲ to 99.669
	EUR/USD	+0.03% ▲ to 1.1593
	GBP/USD	-0.04% ▼ to 1.3409
	USD/JPY	-0.02% ▼ to 160.37
	USD/CNY	+0.02% ▲ to 6.7563
	USD/CNH	+0.01% ▲ to 6.7585
	USD/CHF	-0.15% ▼ to 0.7957
	USD/CAD	-0.17% ▼ to 1.4014
	AUD/USD	-0.13% ▼ to 0.7064

USD Term Structure

2Y-3M Spread narrowed	-2.0bps ▼ to 33.7bps
10Y-2Y Spread narrowed	-1.3bps ▼ to 38.7bps
30Y-10Y Spread narrowed	-0.1bps ▼ to 49.9bps

USD HY OaS

All Sectors	+1.3bps ▲ to 298bps
All Sectors ex-Energy	+1.3bps ▲ 292bps
Cons Disc	+1.6bps ▲ to 465bps
Indu	+1.9bps ▲ to 240bps
Tech	+1.7bps ▲ to 217bps
Comm Srvc	+0.5bps ▲ to 288bps
Materials	+0.6bps ▲ to 251bps
Energy	+0.6bps ▲ to 281bps
Fin Snr	+1.3bps ▲ to 199bps
Fin Sub	+1.4bps ▲ to 297bps
Cons Staples	+0.9bps ▲ to 438bps
Healthcare	+1.3bps ▲ to 310bps
Utes	+1.3bps ▲ to 204bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
6/16	8:30 AM	May Import Price m/m	1	1.9
6/17	2:00 PM	Jun 17 FOMC Decision	3.75	3.75
6/18	4:00 PM	Apr Net TIC Flows	n/a	150.696

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